GOVERNMENT THAT WORKS!
NEW JERSEY DEPARTMENT OF THE TREASURY
LOCAL GOVERNMENT BUDGET REVIEW
UNION COUNTY UTILITIES AUTHORITY

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GOVERNMENT THAT WORKS

OPPORTUNITIES FOR CHANGE
The Report of the Union County Utilities Authority Budget Review Team

Local utility authority customers in New Jersey deserve the best service and rate structure their money can buy. Governor Christie Whitman is committed to making government leaner, and more responsive, by bringing a common sense approach to the way all governments do business. Taxpayers and ratepayers should get a dollar's worth of service for every dollar they send to a governmental entity, whether it goes to Trenton, the County, the local municipal building, the school board or the local utility authority.

Government at all levels must stop thinking that obtaining more money from the taxpayer and the ratepayer is the solution to their problems. Instead, they should start examining how they spend the money they now have and how they can enhance their revenues through mechanisms other than tax and rate increases.

There is no doubt the cost of operating a local utility authority -- and the rates that support them -- have been rising steadily over the last decade. Until now, the State has never worked with local agencies to examine what is behind those rising costs. That is why the Local Government Budget Review Program was created by Governor Whitman and State Treasurer Brian W. Clymer. Its mission is simple: to help municipal governments, school districts and utility authorities find savings, without compromising the delivery of services to the public.

The Local Government Budget Review Program fulfills a promise Governor Whitman made in here first budget address when she offered the State's help to local governments looking to cut costs. This innovative approach combines the expertise of professionals from the Departments of Treasury, Community Affairs and Education, with team leaders who are experienced local government managers. In effect, it gives local agencies a management review and consulting service provided at no cost by the State.

To find these "cost drivers," the teams review all aspects of the local agency requesting the review with the intent of looking for ways to improve efficiency and reduce costs. The team will also document those state regulations or legislative mandates which place an unnecessary burden on the local agency and suggest which ones should be modified or eliminated. Finally, the teams will note where local governments are utilizing "Best Practices" -- ideas that deserve recognition and that other local agencies may want to emulate.

The review and dialogue between local officials, staff and team members is designed to produce significant insight into the factors driving the cost of local governments, and provide the necessary tools to bring meaningful tax and rate relief to the State.

INTRODUCTION

The legal challenges to the control of waste disposal, commonly referred to as "flow control," have precipitated a fundamental change in the economics of the waste industry. The problems and tensions go far beyond the State of New Jersey. For example, the April 1997 issue of the "Waste Dynamics Northeast" trade paper contained one article about residents' demands for accelerated removal of tires in Maine. Another article described a demand by refuse haulers in Massachusetts for additional landfills. A third piece reported that the Michigan legislature is actively considering a statute that would ban the importing of refuse into the state. The article lists New Jersey as one of the top five sources of refuse imported into Michigan.

Until the decisions of the courts are finalized it is reasonable to expect that substantive legislation formalizing revised parameters for permanent solutions to the existing crisis will not be adopted. The paradox of certain change and equally uncertain parameters has created a second juxtaposition consisting of a hesitancy to act coupled with an anxiousness to recover the lost revenue.

This report was prepared under the auspices of the local government budget review program to provide insight and guidance to the Board of Chosen Freeholders and the Commissioners of the Utility Authority. The suggestions and recommendations contained in this report are voluntary, in keeping with the tenets of the local government budget review program.

The state budget contains an appropriation to " subsidize county or county authority debt service payments for environmental investments incurred as of June 30, 1997 . . . in accordance with criteria and program guidelines established by the Commissioners of DEP, DCA and the State Treasurer . . . . Expenditure of such funds are conditioned upon the State Treasurer having conducted or contracted for an operational audit of such county or county authority, and such county or county authority having implemented the audit recommendations to the satisfaction of the State Treasurer."

This report may be considered as a general outline or guide to the issues and concerns that would be addressed in the special review described above. Participation in this program is purely optional. If the Union County Utilities Authority and/or the Board of Chosen Freeholders choose to participate in the special review program then a separate report, not necessarily limited to the topics and issues raised in the ensuing sections, would be issued.

The fact that refuse collection and waste disposal have normally been a public service provided in the context of the public decision making and public purchasing process has not contributed to the ability to respond quickly to the need for change. It would certainly appear that the court decisions will continue to push governmental refuse operations toward the competitive market place. This is, for the most part, uncharted territory for any governmental agency.

The magnitude of the change from waste services controlled by public policy to free market services is indicated by the change in revenues earned by the authority. Prior to the State Superior Court decision, the revenues collected by the Union County Utilities Authority exceeded the projections published in the operating statements for their four series of construction bonds. Since this decision was rendered tipping fee revenues resulting have been steadily declining. The rate at which revenues are falling has accelerated since the announcement of the Federal Appeals Court decision supporting the elimination of flow controls **and** eliminating the two year transition period.

In 1988 the tipping fee was approximately $137 per ton. By 1991 it was reduced to approximately $106.60 per ton. In 1997 it is approximately $83.05 per ton. Governmental operations that keep expenses under budget, exceed revenue estimates and lower the cost of the public good are normally considered to be a noteworthy success. Were it not for the sudden change in the refuse industry it would be reasonable to suggest this would be the assessment of the UCUA.

Given the radical change in operating parameters and the pressing need to re-stabilize the balance sheet of the Union County Utilities Authority, the local government budget review team established the following guidelines for its work. These same points could be adopted by the board of chosen freeholders and the authority commissioners as they develop their plan of action.

1. The Board of Chosen Freeholders and the Utility Authority Commissioners cannot rely exclusively upon the outcome of any court decision or some other external source to provide solutions to the existing problems.

2. In order to survive the UCUA must make the transition from a traditional public utility authority to a competitive, market driven public corporation.

3. After completing the transition to a market based operation, the UCUA must be able to sustain its operation, meet all of its financial obligations and be competitive in an increasingly complex industry.

4. The UCUA must maintain a competitive tipping fee *and* maximize all other income potential. A broader range of income sources is needed to mitigate the impact of unanticipated market or price swings.

The importance of a carefully crafted and properly executed business plan can not be underestimated. The review team could not identify a major incinerator that relied as heavily on tipping fees as the incinerators in New Jersey have been doing. The actions that must be taken to redirect the business plan of the UCUA will have to be taken in an economy where there are strong indications that:

1. The regional market will continue to undergo a significant transformation for several years, particularly as the landfills serving New York City are closed.

2. Every refuse disposal site and incinerator will become less isolated and less restricted in what it needs to do, and what it can do. The free market factors are likely to erase the effects of geographic limitations, political boundaries and public policies.

3. A court decision permanently eliminating waste flow controls must be viewed as an opportunity to regain lost market share through competitive pricing and the quality of service being provided. The history of the UCUA tipping fees clearly shows that as the fee is lowered the volume of refuse that is received increases.

4. Factors creating opportunities in related markets, such as the deregulation of electricity, as well as the need to reduce the reliance on tipping fee revenue, will provide the impetus to place greater emphasis on the production of energy and energy related products or services.

5. A reduction in tipping fees will have to occur <u>before</u> the UCUA experiences any increase in the amount of refuse received. Special revenues sources will be needed until the authority regains its market share.

The local government budget review (LGBR) project was part of a larger effort. The accounting and auditing firm of Hutchins, Laezza, Farrell and Allison was retained by the Board of Chosen Freeholders to conduct an analysis of options related to the indebtedness of the Union County Utilities Authority.

The anticipated scope of the LGBR was an assessment of the administrative operations of the UCUA. Early in the review process it became apparent that the opportunity to identify new sources of revenue was as great, if not greater than the opportunity to identify potential cost reductions. Given the non-profit structure of the authority, revenues that can be generated through means other than the tipping fees can be used to lower the tipping fee. In the past, the existence of flow controls minimized the need for alternative forms of income notwithstanding the facility's designation as a waste***-to-energy*** plant.

The first three sections of this report describe different facets of a comprehensive approach to achieving the goal of reducing the tipping fee by a minimum of $20.00 per ton **<u>and</u>** insuring the long term financial stability of the UCUA. The first section discusses "Opportunities to Reduce Costs." The second focuses on appropriate "Opportunities to Reallocate Costs." The third section addresses "Opportunities for Additional Revenues."

Throughout the report the benchmark used to measure progress toward the stated goal is that for every $500,000 in cost reductions, cost reallocations and new revenues the tipping fee can be reduced approximately $1.00. To achieve a $20.00 per ton tip fee reduction constructive changes yielding a $10,000,000 net difference in the annual budget will have to be found.

Achieving the stated goals will also have the effect of balancing the amount of revenue derived from tip fees with revenues from other sources. In 1996, approximately 22 percent of the UCUA revenues came from sources other than the tipping fee. Overall, expenses averaged approximately $105.20 per ton; $23.28 of which was offset by other revenues yielding an average tipping fee of approximately $81.92.

The major components of the expense are debt service payments (41.26%), plant operations and fees (29.51%), disposal of residue (12.54%), administration and professional service fees (11.90%), and payment of host fees (4.79%).

Where possible, specific estimates of the impact of the report recommendations on the tipping fee are provided. While carefully and conservatively prepared, their best use is a measure of the magnitude of potential change. Previous clients of the local government budget review program have found these relative measures to be useful as they establish their priorities and outline their plan of action. It is also important to point out that the time frame to implement each recommendation will be different. As such, it is inappropriate to expect or project that the entire fiscal impact can occur at one time or even in one year.

Because of the increasing impact of market factors, the action to reduce the tipping fee will almost certainly have to occur before any additional business is obtained through an increased market share. The need to lower the fee as soon as possible, if not immediately, will put a premium on the pace with which the options outlined in this report are prioritized and implemented.

It is anticipated that a $20.00 to $30.00 reduction in the tipping fee will make the UCUA a viable factor in the market place. Review team members were repeatedly told by private haulers that even if the UCUA tip fee was slightly higher than area landfill rates they would choose to go to the Rahway facility because of the time and expense they would save.

Given the need for the Board of Chosen Freeholders and the Utility Authority Commissioners to move swiftly to achieve the stated goal, considerable effort was put into evaluating the feasibility and impact of each recommendation contained in the first three sections of the report.

The fourth and final section of the report, "Implementation Issues," recognizes not only the need for cooperation in implementing the long term solutions but also the need for an equal amount of cooperation in the near term. The immediate need is to identify mechanisms to create a continuous positive cash flow so that there is time for the authority to take advantage of the long term opportunities.

The review team would like to recognize and thank the executive staff and commission of the Union County Utilities Authority as well as the Union County Director of Finance for their assistance and cooperation during this project. It was very clear to the review team that these professionals were dedicated to finding solutions to the identified problems.

The General Services Administration of the New Jersey Department of the Treasury, the New Jersey Department of Corrections and both the local and regional staffs of the Ogden-Martin Corporation contributed extensively to the work leading to many of the recommendations contained in this report. It is expected that all of these professionals and groups will be essential to implementing the recommended solutions outlined in this report.

SECTION ONE: OPPORTUNITIES TO REDUCE COSTS

THE STAFFING AND ORGANIZATION OF THE AUTHORITY

The table of organization of the Union County Utilities Authority (UCUA) should reflect the major tasks and workload of the organization. The major tasks include operating the scales, checking the loads, conducting field inspections, administering the county recycling program, customer accounting, environmental compliance and the executive management. The UCUA has approximately 30 full time positions generating an annual salary and benefit expense of approximately $1,415,555. The agency is in the midst of collective bargaining negotiations for the first time for a labor contract that will cover approximately 24 of the employees. The other employees have individual contracts lasting as long as five years.

Based upon the observation of recent events as well as interviews conducted by members of the review team, it is apparent that the current and past Executive Directors have had little to no control over the hiring process. In fact, several of the junior employees openly stated that they relied on the patronage system to get their job but they are now relying on the union to help them keep their job. It was interesting to note that the employees clearly indicated the employment practices were the same regardless of the majority on the commission and the board of chosen freeholders.

If the Executive Director is to be held responsible for the conduct and performance of the staff, as well as the overall financial viability of the organization then that person must have control over the employment process. Accordingly, **it is recommended (# 1) that the appropriate ordinances be rewritten to clearly establish the Executive Director as the personnel officer** with the sole authority for hiring individuals to fill positions contained in an annual staffing plan approved by the Commission.

Adoption and implementation of the recommendation outlined above will eliminate the need for five year contracts for the employees who are not part of the union or the executive staff. Accordingly, **it is recommended (# 2) that upon the adoption and implementation of a comprehensive personnel system, all multi-year contracts for the personnel other than the executive staff be eliminated.**

A sound staffing plan would recognize the existence of a small executive staff, the number of positions for the titles covered by the collective bargaining agreement and the number of positions for the exempt titles, i.e. those not in the union and not part of the executive staff.

The Executive Staff

The executive staff of the authority consists of the executive director, deputy director, comptroller or finance officer, (part time) clerk, administrative assistant/deputy clerk and secretary. The annual salary and benefit expense is approximately $434,900.

Given the financial constraints facing the UCUA it is imperative that the size of the executive staff reflect the absolute minimum essential staffing requirements. Since the UCUA does not operate the incinerator itself, the focus of the executive staff is on the administration and management of a small internal staff, the scale house, load inspections, field inspections, the county recycling program and management of a series of complex contracts and environmental regulations. **It is recommended (# 4) that the authorized staffing level for the executive staff be reduced to three positions consisting of the Executive Director, the Finance Officer and one confidential executive secretary** to be chosen by the Executive Director.

Implementing this recommendation would necessitate the elimination of 2.5 positions. Statutorily there is no requirement that a separate member of the staff be designated as the clerk or deputy clerk of the authority. It is quite common for the confidential executive secretary to be responsible for insuring that minutes are accurately transcribed and agenda packets are prepared for all commission meetings. Similarly, based upon the review and analysis of the work flow there is no need for an administrative assistant position.

The elimination of 2.5 positions will permit the authority to reduce its salary and benefit expenses by approximately $180,900 per year. The austerity reflected in this recommendation is indicative of the level of action that must be taken to achieve the stated goal of establishing a tipping fee consistent with market rates. To be sure, the workload and responsibilities of the executive director, finance officer and environmental specialists will increase.

The Administrative/Support Staff

The administrative functions include customer, contract and personnel accounting; environmental regulation; the county recycling program; and general clerical support. The staff also includes one part time custodian. The 13.5 positions are divided among these functions as follows:

Customer, contract and personnel accounting	4.0
Environmental regulations/management	2.0
Recycling	3.0
Custodial/Clerical	4.5

The salary and benefit expenses for these positions is approximately $561,340 per year.

Bookkeeping and Accounting. Municipal review teams have found that effective utility billing and collection offices generally have one position for every 3,500 accounts. The nature of the customer accounting work for the authority is clearly different than the work of a municipal utility office. However it does appear that the UCUA has a disproportionate number of personnel given the number of active accounts. **It is recommended (# 5) that one full time bookkeeping position be eliminated to achieve a balance between the number of accounts and the size of the bookkeeping staff.**

It is also recommended (# 6) that the executive director explore the feasibility of having all of the payroll and personnel benefits work completed by the county staff. An increase of approximately 20 UCUA positions to the county payroll and benefit accounting work should be inconsequential. Accomplishing this inter-agency agreement would further insure the opportunity for the authority to complete all of its customer and contract accounting work with one less position.

Clerical Support. The review team also found the number of clerical positions to be high given the number of administrative programs and functions. **It is recommended (# 7) that one clerical position be eliminated.** This would permit the authority to continue to staff the receptionist position and provide one secretarial position to support the environmental management and recycling functions. The receptionist position must then be considered as the first substitute and a supplement to the remaining support staff.

The elimination of two administrative positions would yield an annual savings of approximately $52,250.

The Operations Staff

The operations of the UCUA consist of controlling the scales, checking the contents of the loads delivered to the facility and investigation of violations of a portion of the county's solid waste management regulations as well as the county environmental health act. The eleven full time positions and the related payroll expenses are allocated as follows:

Operation of Scales	2	$69,627
Inspecting Loads	4	$175,467
Investigation/Enforcement	5	$219,075
TOTAL	11	$464,169

Investigation/Enforcement. The existence of the UCUA investigators, a special Union County police unit and the Union County Regional Environmental Health Commission (UCREHC) field staff provide a level of deterrence to illegal dumping, illegal hauling and other violations of waste management regulations. Nevertheless, the lack of a unified enforcement effort is hampering the ability of all three units to be effective. The number of citations issued as well as the revenue from the fines and fees collected was remarkably low given the extensive amount of trucking that occurs along the major routes in Union County.

It is recommended (# 8) that all solid waste and sanitation enforcement functions be consolidated into one organization, preferably in the County Police or the UCREHC. Streamlining the enforcement process would also have the additional benefit of simplifying the accounting and control of funds between agencies. Under the present system the UCUA pays the county police over $100,000 per year to underwrite a portion of the cost of four full time positions. The agreement with the County expressly states that the special police unit is to become self sufficient. There is no historical evidence to indicate that progress is being made toward achieving this goal.

In addition, the UCUA pays the UCREHC for the right to enforce the County Environmental Health Act and the solid waste management plan route restrictions. The current system results in an annual loss of at least $75,000 per year for the UCUA. This loss could be eliminated through the proposed consolidation. The two payments outlined above are in addition to the $219,075 expense for the wages and benefits for the five positions.

It is important to note that the agreements outlining these expenses are nearing an end. This makes it an appropriate time to review the organizational structure, strategies and expenditures for effective enforcement of health and solid waste management regulations.

Weighing and Checking of Refuse Loads. The primary function of the six personnel assigned to the scales or to checking loads is to insure material that may not be incinerated is not accepted at the facility. The Ogden-Martin Corporation has proposed a six point plan to enhance revenues of the Union County Utilities Authority. One part of their proposal is to assume control and responsibility of these operations. These functions are performed by Ogden-Martin at some of the other facilities where it is the contracted operator. The scale house is an essential operation. It serves as the “gatekeeper” for the authority. Illegal delivery of refuse is controlled at the scale house. It is also the control point for all tip fee charges.

In order for the Authority to agree to transferring the responsibility for weighing and checking loads to Ogden-Martin, **it is recommended (# 9) that it obtain a significant savings over its existing labor costs.** An $125,000 reduction in costs which is approximately 50 percent of the current labor cost may make it advantageous for the authority to transfer responsibility for these tasks to Ogden-Martin.

It is further recommended (# 10) that any transfer of responsibility be contingent upon the implementation of detailed checks and balances to ensure there is no slippage of any kind at the scales and there is no degradation in the quality or type of refuse permitted to enter the incinerator. Part of the recommended internal control system may have to be an agreement by the Ogden-Martin to accept full responsibility for any notice of violation as well as the provision of a renewable surety bond or escrow deposit to protect against slippage at the scale house.

The combined impact of the proposed reduction in the executive, administrative and scale house labor expenses totals approximately $358,150. Using the benchmark described in the introduction, this equates to a $.72 reduction in the tipping fee. This also represents a 33 percent reduction in the size of the staff. These estimates do not include the suggested consolidation of the enforcement personnel since the expense will still have to be borne by either the county or the authority.

THE ORGANIZATION AND FUNCTION OF THE AUTHORITY COMMISSION AND ITS APPOINTED PROFESSIONALS

The Board of Utility Commissioners

The organization and function of the board of commissioners should be consistent with the staffing plan and organization of the agency. Given the existence of a full time, professional executive director as well as an equally competent comptroller, there is no need for the commission and its appointed professionals to be involved in the day to day activities of the authority. This premise is consistent with the county manager form of government used in Union County. Implementation of the recommendation to establish the executive director as the personnel officer would reinforce this premise.

As the appointed body charged with the responsibility for setting the policy and direction of the authority **it is recommended (# 11) that at its next reorganization meeting a business development committee, a county/municipal communications committee and a capital planning & infrastructure committee be established.** If there is need for a budget preparation committee the commission can function as a "committee of the whole" or it can appoint an ad hoc group consisting of one member from each of the three task committees.

It is also recommended (# 12) that the appropriate county ordinance be amended to require that a member of the county's solid waste management advisory committee be appointed to the board of commissioners. This would help establish an effective link between the municipalities, the county and the authority. Presumably the person appointed to this position would be assigned to the county/municipal communications committee.

The Effective Utilization of Appointed Professionals

The statutes of the state of New Jersey permit the board of commissioners to appoint certain professionals without the need to publicly advertise or issue a call for competitive bids. Because of this exemption it is incumbent upon the board to be exceptionally prudent when authorizing the related expenditures.

The UCUA is finishing the transition from being a waste disposal clearinghouse to being a comprehensive "waste-to-energy" facility. During this transition, the need for financial planning, as well as legal and engineering expenses was considerably higher than what is needed in the course of normal operations. As such it is reasonable to expect that the amount appropriated for all professional fees can be reduced significantly in current and future budgets.

The deregulation of electricity as well as the loss of flow controls will probably generate some specific projects for which the executive staff may choose to call upon the expertise of the appointed professionals on an “as needed” basis. Heretofore the appointed professionals have had an active, if not controlling role in the many of the financing, permitting, contracting and management decisions.

An equal partnership between the staff and the appointed professionals was essential during the embryonic stages of the transition to a comprehensive waste to energy operation, particularly as the facility was being constructed and brought on line. This is no longer the case. **It is recommended (# 13) that the role of each appointed professional be modified from the current status as an “active partner” to that of an “advisor”** to the executive director and the board of commissioners.

In 1994, the total cost for legal fees was approximately $1,566,992. Approximately 65 percent of this expense was capitalized. The capitalized portion of the expense is not reflected in the authority’s annual statement of operating revenues and expenses. In 1995 the total expense for legal services was approximately $1,217,769. All of this expense was charged against the operating budget. As a result when the statement of operations for the two years are compared it appears that there was an increase in legal expense, when in fact there was an overall reduction of approximately $349,225. In 1996 the expense for legal fees was reduced again by approximately to $476,846.

The historical pattern of expenditures for engineering services, many of which go beyond the initial design and construction of the facility, reflects a similar pattern. In 1994 the total expense was approximately $3,247,050. By 1996 it was down by approximately 52 percent to $1,563,446.

Implementing the proposed change will permit the comptroller and the board to plan more effectively and budget for the fees to be appropriated in the annual budget. **It is also recommended (# 14) that compensation be fixed to cover all work related to regular meetings as well as attendance at meetings.** In many respects the role of a staff attorney or a staff engineer must be viewed in the same context as the other members of the executive staff. Their compensation is based upon performance and productivity, not the number of hours worked.

It is further recommended (# 14.A) that additional special project work such as detailed engineering plans, tariff or rate cases and litigation be addressed in specific supplemental professional service agreements delineating the scope of the work, the schedule of hourly rates and the maximum authorized expenditure. The inclusion of a spending limit creates the opportunity for a constructive reporting mechanism. Should a special project be more complex or lengthy than originally anticipated, then an amendment to the supplemental professional service agreement can be proposed and adopted at the same time any budget amendments that may be necessary are adopted. The exemption to the bidding process does not preclude the need for sound budgetary controls and recurring review of the authorized expenditures.

If legal and engineering fees could be lowered from the 1996 total by 25 percent, by placing greater reliance on the executive staff to perform administrative tasks, and restructuring the responsibilities of the appointed professionals then the reduction in operating expenses would equate to a $1.15 reduction in the tipping fee.

ASH TESTING PROCEDURES

To insure the environmental protection of the geographic area surrounding the incinerator, the UCUA has maintained an extensive monitoring and testing program. Both the testing procedures and the results of the tests have exceeded the federal and state standards. This has been done in the interest of ensuring the public health and developing a statistically reliable and valid record of the facility's impact on the environment.

Now that a data base has been established, which includes data on the trends and patterns of the ash content, it may be statistically and environmentally feasible to consider reducing the frequency of some of the sampling and testing procedures. The review team was told that this change would not precipitate a loss of control or compromise any of the environmental protections that are in place.

One such example is the ash testing process. Three different testing standards exist. The federal standard was met after an initial 28 day series of tests was found to be satisfactory. Pennsylvania and New Jersey each have more stringent testing standards but they are not the same. Since the ash from the UCUA facility is landfilled in Pennsylvania, the standards for both states must be met.

At present a sample of ash is collected hourly. The hourly samples are grouped into daily, weekly and monthly samples for testing. In effect, the ash from every hour of operation in the plant's history is tested. In 1996 the residue sampling fee was approximately $319,164. According to the contract operators and commission engineers, the likelihood of finding evidence of an environmental problem in the ash resulting from just one hour of operation is practically nil.

It is recommended (# 15) that the UCUA submit a revised request to the New Jersey Department of Environmental Protection for permission to modify the frequency for collecting the ash samples. It is also recommended (# 15.A) that the executive director meet with representatives of Ogden-Martin to reach accord on an adjustment to the pass through fees for ash collection and storage so that the new testing plan can be implemented immediately upon approval. The size of the cost reduction and the resulting impact on the tipping fee will be a function of the authorized change in the ash collection procedure.

In 1996 the residue sampling fee paid to Ogden-Martin was $319,164. A change in sampling procedures resulting in a 50 percent reduction in costs would yield the equivalent of a $.32 reduction in the tipping fee.

SECTION TWO: OPPORTUNITIES TO REALLOCATE COSTS

The reallocation of revenues and the displacement of costs should not be viewed as a solution it is the only action being taken. However, when these actions are incorporated into a larger plan they can be a vital component to achieving success. Four immediate opportunities and two long term strategies to displace current UCUA costs have been identified. The immediate opportunities are the payment of the host agreement fee to the City of Rahway, installation of ash drying equipment, disposing of the ash residue within the State of New Jersey, and reviewing the various fees paid to the contract operator. The long term strategies are to turn an existing cost into a source of revenue through one of two approaches for the beneficial reuse of the ash. Two revenue reallocations are also discussed. Both are these are “one-time” transactions that could contribute to the short term need for replacement income.

All these opportunities are predicated upon the premise that long term, permanent solutions to the UCUA financial challenge can only be achieved through an alliance or partnership involving all of the affected agencies and corporations.

THE HOST AGREEMENT FEE

The City of Rahway receives a host agreement fee of approximately $2,313,000 from the UCUA. The City has already been a partner to the short term solution by agreeing to forego an annual increase in the fee which is permitted.

The host unit fee, is approximately five times greater than the statutory requirement. Arbitrarily reducing the fee is not an acceptable alternative because of the adverse impact it would have on the taxpayers of Rahway. Reallocating this cost would give the authority the opportunity to reduce the annual tipping fee by approximately $4.63 per ton.

It is common for local and county governments to strike a balance between fees and tax revenues to pay the capital and operating costs for a major public service. The two part argument is made that the use of some tax money is appropriate because every taxpayer has the option of using a service or a facility. Those who actually use the facility or service bear an additional financial burden through the payment of a fee. This argument is applicable to the UCUA incinerator.

Accordingly, **it is recommended (# 16) that the Union County Board of Chosen Freeholders budget the annual host agreement fee payment to Rahway for at least the next five years, beginning with the next full fiscal year.** In addition to the comments made above, there are at least three reasons why it would be advantageous for the Board of Freeholders to pursue this strategy. First, the freeholders are immediately recognized for becoming a full partner in the solution to the financial challenges facing the UCUA. Second, an active role by the county should do much to ensure the confidence of the bond holders and the bond rating agencies. Third, this is potentially the most cost effective option for the County, as explained below.

Prior to the sale of the four series of bonds to provide the capital to build the facility the county signed a deficiency agreement. The agreement stipulates that the county will make up any shortfall of revenues resulting from the operation of the incinerator. It is financially prudent for the County to participate in preventing a deficiency. The annual debt service payments of the authority are greater than the annual host unit fee payments.

An alternative method achieving essentially the same result would be for the board of chosen freeholders to authorize a payment directly into the rate stabilization fund of the authority and stipulate that it must be dedicated to reducing the tipping fee by an equivalent amount. The primary use of the rate stabilization fund is to offset increases in the tipping resulting from increases in the annual debt service payments.

Regardless of the method selected it can be argued that the taxpayer will be the ultimate beneficiary of the lower tipping fee. There are a variety of ways the residents and businesses in the Union County municipalities pay for trash removal. In some it is a municipally operated service; in others there is a municipal contract with one vendor; and in still others each client must privately contract with the vendor of their choice for the collection of refuse. The total tipping fee paid by municipalities will be lower which in turn will give the local governing bodies the opportunity to reduce the municipal tax rate. Also, the competitive market should drive the cost down for those who privately contract for refuse collection.

A $4.63 reduction in the tipping fee is a major component of the plan to achieve market rates and increase the volume of refuse delivery to the authority while at the same time passing a cost savings onto the taxpayers of Union County. The 1996 Union County Abstract of Ratables lists the net valuation taxable as $20,981,441,324. Absorbing the host unit fee would yield no more than seven tenths of a one cent change in the county tax rate.

THE ASH DRYING PROCESS

The provisions of the service contract stipulate that the facility operator, Ogden-Martin, will be paid a fee for the net tonnage generated at the facility. This is computed by subtracting the weight of the incineration residue or ash from the weight of the material brought into the facility. The ash particles readily absorb moisture which can add as much as 20 percent to the weight of the ash. This “heavy” ash is not beneficial to either the authority or the contract operator. The greater the net tonnage the more money the operator will be paid. Similarly, the lighter the ash the less the authority will have to pay to have it hauled to a disposal site.

Preliminary work has been completed on the design of a modification to the plant that would dry the ash thereby making it lighter. The estimated construction cost is approximately $750,000. During the course of the interviews as well as subsequent joint project meetings, representatives of the Ogden-Martin Corporation made it clear that they are prepared to be an integral part of the solution to the financial challenges posed by the loss of flow control.

As part of their proposed six point plan to enhance revenues and reduce costs Ogden-Martin offered to pay half of the cost to install the ash drying equipment. Given the ability of a private sector firm to freely negotiate construction costs and given their ability to proceed with construction more rapidly than the public bid process permits, **it is recommended that (# 17) Ogden-Martin pay 100 percent of the design and installation cost and accept full responsibility for completing this task.**

In addition to accelerating the project, it can be argued that Ogden-Martin will recover all of their costs faster through increased income if they accept full responsibility for the project than if they only had to recover half of the cost after the public bidding and construction procedure was completed. It is also reasonable to project that when one or more of the other recommendations made in the Ogden-Martin six point plan are implemented the gross tonnage will increase which will yield an increase in income for the authority and the contract operator.

IN-STATE DISPOSAL OF ASH

As noted in the introduction, the disposal of ash represents approximately 12.54 percent of the authority's annual expense. The previous section outlines a method to reduce the weight of the ash which would reduce the hauling cost but increase the amount paid to the contract operator. Presently all of the ash generated at the facility is hauled to the Empire Landfill in Pennsylvania. The landfill tipping fee and hauling charge is approximately $13.54 per ton.

Work is already underway to reduce this cost through renegotiation of the contract with the Empire Landfill, however this is will not reduce the ash disposal cost to its lowest possible level. The contract with Empire Landfill stipulates that the UCUA is not required to haul ash to their site if there is a beneficial reuse for the ash or it can be properly disposed of in the State of New Jersey. The Pollution Control Financing Authority of Warren County (PCFA,) owner of the Warren County incinerator and landfill, has indicated a willingness to accept the UCUA ash at their landfill.

Just as the UCUA is having to respond to radical changes in the market place so too is the PCFA. The tip fee resulting from the UCUA ash could become a new revenue source for them while at the same time generating a significant reduction in an ongoing expense for the UCUA.

It is recommended (# 18) that the executive director of the authority be authorized to negotiate with the PCFA for the fee to be charged for disposal of the UCUA ash. Upon completion of an agreement in principal the matter can be turned over to the general counsel for the purpose of preparing the appropriate written documents. **It is further recommended (# 18.A) that discussions be started with the hauling company regarding a contract amendment in anticipation of a significant reduction in their cost due to the shorter mileage and time needed to dispose of the ash.**

It has also been suggested that in the long term it may be feasible for the UCUA to enter into negotiations regarding ownership of a portion of the PCFA landfill capacity. In the interest of accelerating negotiations for the disposal of the ash **it is recommended (# 18.B) that the matter of landfill ownership or any other long term agreement be delayed until after the initial disposal arrangements are in place.**

THE REALLOCATION OF "PASS-THROUGH" COSTS

The contract between the Ogden-Martin Corporation and the Union County Utilities Authority is a very complex agreement. At the risk of grossly oversimplifying it contents, there are four basic components to the fee schedule. The first is the <u>service fee</u> charged for operating the plant. The second is the <u>energy fee</u>, or Ogden-Martin's share of the proceeds from the sale of electricity. The third part is a set of <u>specific fees</u> indirectly related to the operation of the plant. The fourth is the set of costs incurred by Ogden-Martin during the operation of the facility that are passed onto the authority, hence the name <u>"pass-through" costs</u>.

The Service Fee

The short operational history of the incinerator can make it difficult to identify reliable trends and patterns. A comparison of 1995 and 1996 invoices shows that the service fee paid to Ogden-Martin was one third of one percent lower, i.e. essentially unchanged. It is predicated upon a charge per ton for the net tonnage at the facility.

There are two production benchmarks at which the cost per ton charged by Ogden-Martin is lowered. These reductions are predicated upon the economies of scale that develop with expanded production and the fact that the overhead cost per net ton produced steadily decreases. In one sense the UCUA saves money each time one of these benchmarks is passed.

There are strong indications that the loss of flow control will preclude the UCUA from reaching either production benchmark until the tipping fee is reduced and the authority re-gains a larger market share. It has been suggested that Ogden-Martin should agree to reducing these benchmarks in the interest of creating some financial relief for the UCUA. To the extent that Ogden-Martin can reduce its out of pocket costs and/or rationalize a delay in income in the interests of long term gains the idea deserves to be considered.

Yet at the same time, it should be recognized that the Ogden-Martin Corporation is already successful in many of the free market components of the waste industry. Given the fact that the UCUA is undergoing a transformation to a market based operation, the advantages to be gained through a partnership with Ogden-Martin should not be underestimated. In short, the governing bodies are going to have to determine whether there is more to be gained through competitive negotiation or cooperative partnership. When Ogden-Martin presented their six point plan, they clearly stated that through the acceptance of spot loads of refuse, the contents of which is already within the range of materials permitted for incineration, the UCUA facility can be operating at its functional capacity very quickly.

Based upon the present fee structure, it is almost certain that there would be some sensitivity, frustration or resistance to the idea of accepting spot loads at market rates. As noted in the introduction the UCUA fee schedule must be reduced as soon as bridge loans are obtained to cover the short term loss of income. Given the impending reduction of the UCUA fees, **it is recommended (# 19) that Ogden-Martin be permitted to make use of the corporate contacts and skills to obtain spot loads in order to increase the volume of refuse brought to the facility.**

The Energy Fee

The second major component of the contract with Ogden-Martin is the energy fee. The energy fee paid to Ogden-Martin declined approximately 5.6 percent from 1995 to 1996. This reflects a decline in electrical production resulting from a decline in the volume of refuse received at the facility. The third section of this report outlines several new revenue opportunities such as the sale of steam and other possibilities resulting from the deregulation of electricity.

The Specific Fees

The third major cost component are the specific fees paid to Ogden-Martin. In 1995 they totaled approximately $604,058 while in 1996 they dropped to $587,977. Nearly all of these are the result of testing and monitoring procedures required for the operation of the incinerator. The ash collection and testing procedure discussed in the first section is approximately 54 percent of the 1996 expense. The interim mercury fee generated approximately 35 percent of the expense.

The Pass-Through Costs

Over 20 different pass-through costs were identified during the analysis of the invoices. They were grouped as follows:

Pass Through Fee Category	1995 Expense	1996 Expense
Materials	$462,728	$541,504
Fees & Permits	$451,429	$359,946
Testing/Monitoring	$ 22,534	$158,540
Operation & Maintenance	$ 73,100	$107,494
Utilities	$ 59,687	$ 42,609
Other	$ 4,687	-0-
TOTAL	**$1,074,165**	**$1,210,093**

The increase in the pass-through cost of materials was primarily due to a $94,746 increase in the cost of lime. The increase in the pass-through cost of testing/monitoring was the result of water treatment ($99,400) and environmental testing for mercury ($59,100). Nearly all of the operations and maintenance increase was due to contractor costs.

Overall the pass-through fees increased approximately 12.65 percent from 1995 to 1996 when the amount of waste received at the facility was lower. The extent to which these pass-through fees are appropriate is a function of the negotiations that occurred at the time the agreement was made. As noted above, the value of a productive partnership with the contractor must be weighed against the gains to be made through re-negotiation of one or more parts of the agreement. At the time the representatives of Ogden-Martin presented their proposed six point plan they clearly stated their desire to part of the solution. A combination of short term relief for the UCUA coupled with enhanced freedom for Ogden-Martin to increase production at market rates could be the basis for a mutually advantageous strategy.

THE BENEFICIAL REUSE OF ASH

Notwithstanding the two prior recommendations to pursue negotiations for a reduction in the Empire Landfill tipping fee and/or have the residue hauled to a PCFA landfill, the ultimate solution is to transform the ash residue into a source of revenue. As more beneficial uses are identified and permitted, it will become more practical to change this material from a liability generating an operating expense into an market product generating an operating revenue.

There appear to be two general strategies or categories for the beneficial reuse of ash, both of which will require careful study and approval by the executive staff, the commission and the New Jersey Department of Environmental Protection. They are the use of ash as a fill material and its use as the base material for the manufacture of a variety of products.

As noted previously, the UCUA has maintained complete records of all ash test results. **It is recommended (# 20) that the UCUA prepare and distribute a profile of the ash content, quantity and availability** to the universities, research laboratories and corporations that are actively involved in the research and use of the ash residue. It is also **recommended (# 20.A) that counsel prepare the necessary releases so that ash can be sold.**

Construction Fill Material

Specific opportunities for near term reuse of the ash is as a fill material for major road projects. It is common for the specifications of public road construction projects to require the successful bidder to provide fill material from off site. Every ton of ash that is sold to a contractor, subject to receipt of all the required environmental approvals, is one less ton generating a cost for the UCUA.

The fact that ash is made available to contractors may cause a slight increase in the unit cost for ash that must still be placed in a landfill. **It is recommended (# 21) that the UCUA pursue a hauling and landfill contracts that acknowledge an inverse relationship between the volume of material and the unit price.** This will permit the finance officer and the commission to make a sound business assessment of the viability of pursuing alternative use of the ash.

Market Products

The basis for turning incinerator ash into a material for use in manufacturing processes is analogous to the development of crystal. The chemical composition of the lead that is found in crystal has been permanently altered so that it is completely safe. The same can be done for incinerator ash. It is important to note that the chemical content of the ash is not similar to the lead, thereby making the process even more feasible and logical.

Proprietary technologies use electricity to create a fusion process that renders the ash inert. The inert material can be made into large blocks, pellets or chemical fibers. Some of the retail product manufactured using the inert material are shore erosion blocks, decorative tile, wall board and roofing supplies. **It is recommended (#22) that the executive director be authorized to solicit written proposals for the purchase of ash by companies using this technology. It is also recommended (# 22.A) that consideration be given to soliciting proposals for installation of the fusion technology at the UCUA facility.** Care will have to be taken to balance the cost and the benefit of using electricity generated by the incinerator, particularly in light of other revenue opportunities discussed in the third section of this report.

TWO REVENUE REALLOCATION POSSIBILITIES

Construction Bond Proceeds

Approximately $5,000,000 remains in the construction bond account. The use of this money is limited by the covenants established at the time of the bond sale. Subject to the review and approval of bond counsel, **it is recommended (# 23) that the balance in the construction fund account be transferred into the Authority's rate stabilization fund.** The purpose of the rate stabilization fund is to offset the impact of the increases in the scheduled debt service payments. Implementation of this recommendation would provide some the money needed for near term cash flow purposes but it would also result in a loss of some interest income.

It is important to note that this will not be a recurring transaction. As such, this adjustment is not included in the tabulation of modifications needed to reach the stated goal of a $20.00 reduction in the tip fee. It would be more appropriate to consider this money as a tool to be used to offset the scheduled increases in debt service payments. The debt service payments of the authority are scheduled to increase by approximately $3,700,000 in 1998 and another $1,913,000 in 1999. The payments continue to grow until at least 2001.

Unspent Loan Proceeds

In 1995 the UCUA was awarded a grant for a $13,300,000 zero interest loan from the New Jersey Department of Environmental Protection. Approximately $2,500,000 has already been spent on capital projects. The authority does not hold the balance of the funds. They have not been used for a number of reasons, the least of which is the general paralysis caused by the uncertainty over waste flow controls. Nevertheless, as a conservative and protective fiscal measure, the maximum annual loan repayment of $700,000 has already been included in the computation of the authority's tipping fee.

Two options may exist for the use of these funds. Prior to selecting an option, considerable care will have to be taken to obtain all of the requisite approvals.

Option One - Additional Rate Stabilization. Based upon a review of correspondence, original loan applications and the general criteria for use of the loan money, it could be argued that the intent of the loan was to reduce the long term capital cost of the UCUA facility. By using a zero interest loan to pay for a portion of the construction costs the total amount of debt service would be reduced. The timing of the loan approval resulted in the authority having to use its bond proceeds to complete the construction work.
As a result, an amended schedule for use of the loan proceeds was prepared and approved.

Given the original intent of the loan, which is analogous to establishing an equity position, it can be argued that the same result can be achieved by permitting the loan proceeds to be placed into the rate stabilization fund. Rather than paying initial construction costs and thereby reducing the amount of debt service to be paid, by placing the proceeds in the rate stabilization fund the impact of the bond payments would be partially offset.

If one half of the proceeds were used in the next fiscal year to offset the temporary loss of income, the tipping fee could be reduced by approximately $13.30. Presumably as the authority's market share increases each year less offset money would be needed.

Option Two: Revenue Enhancing Capital Projects. The largest cost component of the revised loan application called for the installation of the infrastructure needed to produce steam for sale on the open market. The second largest cost component was for a project intended to reduce the recurring water treatment costs.

Here again, the uncertainty over the volume of refuse brought to the facility helped to generate hesitancy over the feasibility of continuing with a multi-million dollar project to produce steam. To be sure, this concern exists, although the move to a free market operation should help to resolve it. A second major concern was the need to have a reliable long term customer.

Part of the cooperative effort that evolved as a result of this review was a series of "joint project" meetings involving representatives of the New Jersey Department of Corrections and the state's General Services Administration. The East Jersey State Prison, located less than one mile from the incinerator, was identified as a likely customer. Detailed cost-benefit analysis work was started to evaluate the feasibility of providing steam to the prison. To be conservative, the cost of debt service was included in the cost-benefit analysis, notwithstanding the existing $13,300,000 loan.

If this loan can be used for the steam project then the revenues generated by the sale of steam could be increased by as much as $2.00 per ton in the first year of operation. This project is discussed in the third section of the report.

It is recommended (# 24) that the Commission pursue option one. The potential to pay for the steam sale project work with other funding sources should make it feasible to focus on the first option.

SECTION THREE: ADDITIONAL REVENUE OPPORTUNITIES

In many respects the technological capacity of the incinerator remains an untapped revenue source. It may actually be fortuitous that the waste flow crisis is occurring simultaneously with the movement toward the deregulation of electrical rates. The two events provide the stimulus and the opportunity to generate a significant amount of revenue that can be used to offset the tipping fees while permitting the authority to meet all of its financial obligations. Outlined below are a series of revenue opportunities, all of which have significant environmental advantages. As with every other suggestion or recommendation in this report, implementation of any of these opportunities is subject to the requisite environmental and regulatory approval.

Refuse Generated At State Facilities

All of the refuse generated at the Woodbridge Developmental Center, the East Jersey State Prison and the Avenel Correctional Facility is hauled a considerable distance to the Edgeboro Landfill in Middlesex County. In the case of the state prison some of the refuse is hauled to the landfill by inmates in a state owned truck. The balance of the refuse is hauled by a private vendor under contract to the state.

Based upon discussion with representatives of the Department of Corrections, all of the refuse generated at these facilities is already permitted for incineration at the UCUA. Based on a $60.00 per ton tipping fee, the UCUA would generate an additional $202,800 in revenue. Given the cost of the contract, the Edgeboro Landfill tipping fee and the personnel costs associated with supervising the inmates' hauling refuse, it would appear to be cost effective for the state to deliver this waste to the authority. The demise of waste flow controls may eliminate the need for a revision to any existing solid waste management plan.

It is recommended (# 25) that the executive director be authorized to approach the appropriate state personnel regarding the opportunity to dispose of their refuse at the UCUA facility.

Desorbtion of Contaminated Soils

Clearly a permanent solution to the statewide problem of soils contaminated with hydrocarbons is not their storage in barrels placed in landfills. The solution lies in having the space and capability to "clean" or these soils, which is often referred to as "desorbtion." Most of the soil cleaning technologies revolve around the use of electricity to generate low but steady levels of heat.

It would appear that the UCUA has the space, location and technical capacity to become an excellent site for this purpose. The revenue would be derived from either charging for the cleaning of the soils, the sale of cleaned soils, or both. Given the need for a pilot project of this sort, it may be possible to obtain grant funds to pay for the capital modifications that would be needed.

Public agencies and other landfill owners should be able to provide a steady stream of material needing to be cleaned. A major incentive for the landfill owners is the recovery of valuable landfill space and the reduction, if not total elimination of the risk associated with its storage. Members of the review team were told that the volume of contaminated soils located on public properties alone is sufficient to keep this process operating at capacity for a very long time.

It is recommended (# 26) that the commission give consideration to obtaining a cost benefit analysis of this opportunity. It is likely that the readily available supply of electricity would make this process financially attractive for an agency like the UCUA. This may not be the case for a private corporation that must generate an acceptable profit margin and pay for the electrical power needed for the cleaning process.

The Sale of Steam to the State of New Jersey

The Woodbridge Developmental Center currently operates four boilers to produce steam for itself and for the East Jersey State Prison. These boilers consume approximately 3.0 million gallons of # 6 fuel oil. The state would like to eliminate the use of # 6 fuel oil for financial and environmental reasons.

A joint project committee consisting of representatives of the General Service Administration, the Department of Corrections, Ogden-Martin, the UCUA executive staff, the general counsel and the commission engineer evaluated the feasibility of the steam sale project. After considerable discussion and analysis it was the general consensus of the committee that it is in the best interests of the county, the state and the authority to proceed with the proposed project.

Additional work remains to be done to finalize the engineering plans, negotiate unit prices and supply agreements, and draft an inter-agency agreement. It is projected that a long term agreement could yield an annual reduction in the tipping fee of at least $2.00 per ton for the UCUA, particularly if the existing zero interest loan can be used to fund the project. It was also projected that the state would be able to reduce its operating costs. A general model for the inter-agency agreement already exists. The Trenton District Energy Company sells steam to the Trenton State Prison while maintaining the prison's boilers as the primary back-up system.

A critical component to the timely completion of this project would be the installation of steam and condensate lines on the structure of the new Lawrence Street bridge. It would be beneficial to have this work done under the county's bridge construction permits and the county's construction bid. It is expected that nearly all of the cost to rebuild the bridge will ultimately be borne by capital grants previously awarded to the county by the

New Jersey Department of Transportation. The costs for the steam related work on the bridge infrastructure have been included in the UCUA's project cost estimates.

If the final decision is made to sell steam it will probably be necessary to address any objection or concern the contract operator may have due to the loss of capability to generate electrical power. One of their sources of income is a portion of the proceeds from the sale of electricity. Representatives of the General Services Administration believe the impending deregulation of electricity may actually provide the UCUA and the contract operator with an opportunity to increase electrical revenues even if retail production is reduced.

It is recommended (# 27) that the preliminary work of the joint project committee be continued. It is also recommended (# 27.A) that a representative of the office of the county engineer be invited to participate to insure full and timely communication as well as effective coordination of the Lawrence Street bridge project

Emergency Electrical Power Supply

The UCUA facility can operate independently of the electrical power grid. This means that when local power companies are unable to produce or deliver power to their customers the UCUA may still be able to do so. It is essential that the East Jersey State Prison have access to a primary and a secondary source of power at all times. The right of access to a secondary power supply is not considered to be an infringement on franchise rights for two reasons. First the customer needing the secondary source of power is actually paying for the option or right of access to an emergency power source. Second, the power is only delivered when the primary vendor is unable to do so.

It is recommended the executive director be authorized (# 28) to begin negotiations with the General Services Administration and the Department of Corrections regarding the provision of a secondary source of electrical power for the East Jersey State Prison.

Future Electrical Sales

As noted above, it is likely that the deregulation of electricity will provide several new opportunities for the UCUA to increase it electrical revenues through an increase in the unit price of electrical power. For example, as a customer the East Jersey State Prison pays a retail rate for its power while as a supplier UCUA sells its power at a wholesale rate. The average difference between the prison's retail rate and the authority's wholesale rate can be as much as $.07 per unit. This is nearly twice the base UCUA rate.

Rather than attempting to compete with PSE&G for customers after deregulation is complete, it would be in the best interests of the UCUA to facilitate the completion of a three party agreement that is mutually beneficial for all three agencies. Presumably PSE&G will be interested in retaining the East Jersey State Prison as a customer for the long term even if the price per unit sold is lower. The UCUA should be interested in providing this power which could reduce movement or "wheeling" costs incurred by PSE&G. Lastly, the Department of Corrections would be interested in paying less for each unit of power that is purchased.

In 1995 the gross electrical revenue collected by the UCUA totaled $8,425,344. A 15 percent increase in revenues, which would require only a minimal increase over the current price for power, would generate an additional $1,263,800. A portion of these revenues would have to be paid to the contract operator under the terms of the existing agreement.

In anticipation of the impact of deregulation, **it is recommended (# 29) that the authority consider inviting PSE&G to discuss a mutually advantageous strategy.** It is also feasible to suggest that a similar arrangement may be possible with the Rahway Valley Sewerage Authority, another public agency requiring a very large amount of electrical power. Presumably a reduction in their operating costs will ultimately help the taxpayer and the sewer utility rate payer.

Effective Utilization of Average Account Balances

As part of every review process the team conducts an analysis of the level of activity and interest income in a sample of an agency's bank accounts. This analysis is then compared to market rates for accounts commonly used by public agencies. The cost of the services provided by the depositories in lieu of interest is incorporated into the analysis to enhance the comparability of the data.

The recent wave of bank mergers has resulted in a number of regional and national corporations becoming more actively involved in the banking industry within New Jersey. Review teams have found that the resulting competition has been beneficial for the public agencies that choose to take advantage of it.

While the review team found the bond covenant accounts and the operating accounts to be well managed, **it is recommended (# 30) that consideration be given to competitively bidding all banking services**. Public agencies that have started doing this are earning interest at or above market rates while still receiving all of the banking services at competitive rates.

The review team analyzed the monthly bank statements for a portion of the authority's bank accounts for fiscal year 1995. The accounts reviewed were the hauler, general revenue, business savings, money market, operating and payroll accounts. Of the ten interest bearing accounts six of them were earning interest at a rate of 1.83 percent per annum or less.

In 1996 the authority reduced the number of active bank accounts to five, which lends itself to an efficient and manageable cash management operation. Given this change, **it is recommended (# 31) that the UCUA require their depositories to provide the**

monthly "customer account analysis" or "customer profitability analysis." This is an effective tool to evaluate the costs and benefits associated with the banking services being provided.

Overall, the aggregate net available balances in the authority's accounts were higher than the benchmark established by the banks to cover the cost of banking services. When this occurs the balance above the benchmark can earn interest if the banking contracts stipulate this. Otherwise they are commonly called "idle funds." **It is recommended (# 32) that the specifications for the public bidding of bank contracts stipulate that the goal of the UCUA is to have no idle funds. It is also recommended (# 32.A) that the specifications require bidders to delineate the balance or benchmark at which the cost of all banking services are covered as well as the mechanism to be used to determine the interest income on the balances above the benchmark.**

The interest earned by the authority was compared to the interest earned in the New Jersey Cash Management Fund and the average of the 91 day Treasury bill for the same period of time. If all of the available funds had been deposited in the New Jersey Cash Management Fund, the interest earned would have been approximately $157,000 higher. Likewise investment in 91-day treasury bills, would have generated an additional $153,200 in interest income.

The team recognizes that the authority cannot invest every dollar in the New Jersey Cash Management Fund or other similar instruments. Nevertheless, the potential to increase the interest income clearly exists. If the authority achieved only 66 percent of the amount identified above the increase in income would be roughly equivalent to a $.20 cent reduction in the tipping fee.

SECTION FOUR: IMPLEMENTATION ISSUES

The Need for Partnerships

The theme of partnership has been apparent throughout this report. It is intentional for a variety of reasons. First, the magnitude of the problem is such that it deserves the honest effort of every affected agency and corporation. Second, cooperative strategies tend to focus resources on solutions rather than on fruitless and expensive confrontations. Third, the alternatives to cooperation are simply not attractive. The different “pieces” that each party can bring to the table will be essential to the overall success of the transition.

The readily available access to the spot market through the Ogden-Martin Corporation should not be underestimated nor should their ability to quickly construct the mechanisms needed to reduce the water content of the ash residue. The county’s ability to absorb the host agreement fee with little or no impact on the taxpayer and provide payroll accounting services to the authority may be essential to restoring the bond ratings of the authority’s existing debt.

The professional appointees have an opportunity to contribute through the recognition that their services, while both valuable and essential, have been a major cost driver. Every component of the authority staff has its piece, some of which will be not be palatable from a personal perspective. The state also has its ample opportunity contribute.

Some of the opportunities for the state include review of the ash testing procedures and review of the terms and conditions for the appropriate use of the existing zero interest loan. The state is also prepared to continue discussion on the inter-agency agreement to buy steam from the authority.

Possible Near Term Financing

It is reasonable to suggest the availability of funding to ensure a positive cash flow from any source will be dependent upon a clear demonstration that the UCUA and the county have taken action to minimize costs and enhance the long term revenue opportunities. These actions will be necessary to show that the authority can be successful in a competitive industry.

Two potential sources of money to secure the cash flow of the authority have been identified in this report. Prior to using either source it will be necessary to obtain the approval of the appropriate authorities. The first source is the existing zero interest loan. The second is the unspent balance of the construction bond fund.

The Potential Impact on the Tipping Fee

Outlined on the following pages, is a summary of the recommendations having either and an ongoing or a non-recurring impact on the tipping fee. In keeping with the practice of all local government budget review reports, a concerted effort has been made to be conservative in the preparation of these estimates. Based on the estimates provided as well as the savings yet to be determined, it would appear that achieving market rates and creating long term financial stability for the UCUA certainly appears to be possible.

Notwithstanding the care that has been taken in preparing the estimates, possibly their best use is as a relative measure of the opportunity to favorably impact the tipping fee. An acceptable, although not necessarily popular package of short term and long term actions will have to be adopted and implemented. As noted at the beginning of the report, the first step may have to be a reduction in the tipping fee to market rates.

Setting the Course of Action

Prior to accepting a position in Boulder, Colorado, the former executive director of the authority estimated that a $5,000,000 bridge loan was needed to provide the cash flow and time needed for the authority to become competitive. This estimate may have been conservative.

The actual size of the loan needed to secure a positive cash flow during the reorganization of the authority's approach to the refuse business will be dependent upon the size and timing of the decrease in the tipping fees, the estimated time needed to regain a strong market share and the pace with which the cost reduction and reallocation recommendations can be implemented. Another key factor will be the willingness to accept spot loads to increase the level of production. As market share is regained the need for the spot loads should be reduced. The sensitivity regarding spot loads will also be reduced as the difference between the UCUA tipping fee and the market driven prices of the spot loads is narrowed.

Given initial guidance from the freeholders and the commissioners on the recommendation contained in this report as well as the factors described above it will then be possible to develop rational estimates of the size of the bridge loan that will be needed to insure all financial obligations are met. The development of these estimates will be a compilation of the authority's new business plan.

A SUMMARY OF THE RECOMMENDATIONS HAVING A RECURRING OR NON-RECURRING FISCAL IMPACT

RECURRING RECOMMENDATIONS	Budget Impact	Tip Fee Impact
Cost Reductions		
Reduce executive staff	$ 180,900	$ .362
Reduce administrative staff	$ 52,250	$ .105
Contract for scale house operations	$ 80,480	$ .161
Consolidate solid waste enforcement	To be determined	
Eliminate UCREHC/County payments	$ 175,000 (a)	$ .35
Alter role & expense of appointed professionals	$ 1,115,000	$2.23
Revise ash collecting & testing procedures	$ 159,580	$ .319
Reduce weight of ash residue	See note (b)	
Utilize New Jersey landfill for ash residue	See note (b)	
Cost Reallocations		
Reallocate host unit fee	$ 2,313,000	$4.626
Adjust service fee benchmarks	To be determined	
Adjust pass-through costs	To be determined	

Notes
(a) Contracts establishing these fees are scheduled to expire.
(b) Four different cost modifications pertaining to the ash residue are discussed in the report. They were (1) reducing the weight of the ash being transported, (2) reducing the out-of-state landfill expense, (3) utilizing an in-state landfill and (4) beneficial reuse of the ash. To avoid overstating the potential reduction or stating a cost reduction twice, one credit equal to half of the existing ash disposal cost is taken in the summary.

RECURRING RECOMMENDATIONS	Budget Impact	Tip Fee Impact
Revenue Enhancements		
Accept market priced spot loads	To be determined	
Eliminate all remaining ash disposal costs	$ 2,970,000 (b)	$5.94
Accept refuse from nearby state facilities	$ 202,800	$ .406
“Clean” contaminated soils	To be determined	
Sell steam to the State of New Jersey	$ 1,000,000	$2.00
Provide emergency power	To be determined	
Renegotiate electrical sales and distribution agreements	To be determined	
Competitively bid banking services	$ 100,000	.20
IDENTIFIED TOTAL	**$8,349,100**	**$16.70**

NON-RECURRING RECOMMENDATIONS	Budget Impact	Tip Fee Impact
Transfer construction bond proceeds to rate stabilization fund	$ 5,000,000	$10.00
Transfer loan proceeds to rate stabilization fund	$10,800,000	$21.60
IDENTIFIED TOTAL	**$15,800,000**	**$31.60**

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